The Grandich Letter

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SPECIAL ALERT:
MAN YOUR BATTLE STATIONS

Special Alert:

Sunday, October 14, 2007

DJIA 14,093
S & P 500 1.561
NASDAQ 2,805
Gold $748
Silver $13.77
Platinum $1,415
Palladium $377
Copper $3.68
Uranium $75
XAU Index 179
U.S. Dollar Index 78.16
Oil $83.77

Editor's Note: In this edition of the Grandich Letter, *we have provided our readers with many links to off-site articles, commentary and video. Note that we cannot guarantee the links will work on all browsers and all computers, and we cannot vouch for the files. We have supplied these links to help support our discussion and enlighten our readers. We apologize if all links are not functional at the time you click on them.*

"Good advice is always certain to be ignored, but that's no reason not to give it."

- Agatha Christie

As a new stockbroker 23 years ago, http://www.youtube.com/watch?v=lcgrogY9o8o I began publishing *The Grandich Letter* in lieu of having to cold-call prospective clients. What really began as an alternative sales tool soon blossomed into a medium of expression for me and my thoughts on the world of finance. It wasn't long before this newsletter gained notoriety. In August of 1987, while Head of Investment Strategy for a New York Stock Exchange Member firm, I wrote about an expectation of a market crash within weeks. Just two months later, the crash occurred. Proving even a blind squirrel can find a nut or two, the day after the crash I predicted a new, all-time high for the DJIA in two years. The DJIA did indeed rebound... and then some.

I was by no means a roaring bull through the 90s, but by the time the new millennium arrived, I had once again become so concerned about a danger for a major fall that I wrote a piece suggesting that by the summer of 2000, a major top could occur that would be followed by a sharp fall. Sure enough, the Internet

craze came crashing down and with it the NASDAQ and to lesser extents, other key market averages.

Again, I by no means turned to a pounding-the-table-bullish position. Until recently, however, I spoke of a belief that the U.S. stock market couldn't top out until the Federal Reserve reversed its tightening mode to clear easing. A few weeks ago they did and I have stated that that was the final silver bullet for who I've long coined, "The Don't Worry, Be Happy Crowd" on Wall Street. http://www.trinityfsem.com/audio/SNL1.wvx Their bag of tricks is now empty (except for outright market manipulation by the PPT-Plunge Protection Team http://www.nypost.com/seven/10112007/business/market_sos_to_the_sec.htm) at a time when an unprecedented economic tsunami hits America beginning in 2008.

"What I'm about to write about is not pretty. In fact, it's downright scary. Trust me; it won't earn me invitations to many financial services firms' Christmas parties."

What I'm about to write about is not pretty. In fact, it's downright scary. Trust me; it won't earn me invitations to many financial services firms' Christmas parties. Most American investors won't beat a path to my door. But in my heart of hearts, it's not a question of "if?" but "when?" much of what I'm about to write will unfold.

Most of what I'm forecasting is not for the next month or year but for many years into the future. The exact timing of it hitting home is not important for me because by the time the average American realizes it's at hand, it will be far too late for them to do much about it.

Before I begin, I want to tell you what happened to me back in August of 1987 when, as Head of Investment Strategy for a New York Stock Exchange firm named Philips, Appel & Walden, I forecasted the stock market crash that happened just two months later. My boss called me in after I issued my forecast and "urged" me to retract it. I asked why and his response taught me a valuable lesson about how Wall Street really works and thinks.

While it's now over twenty years ago, it went something like this:

> "Peter, 90% of our clients will never sell all their stocks as you suggest. They will look to keep some, if not most. If you end up wrong, and I believe you will be, they will laugh at you and never listen to you again because you would have cost them their gains. If you end up right, they will be in no position to take advantage when you decide it's time to buy stocks again.

> "Now let's look at the 10% who may listen to you. I'll bet half of them will be too scared to jump back in when you tell them, leaving only 5% of all our clients benefiting from your advice. Peter, no firm on Wall Street can survive with only 5% of our clients profiting from our advice.

When you stop and think about it from a strictly business standpoint, it made good business sense. And he was right in that most ended up not listening. That's why I'm convinced that the Archangel Michael could visit most firms' Market Strategists in their sleep and convince them that a dramatic market fall was coming, but their firms would never allow them to make such a dire forecast. If this is true, then most forecasts aren't worth the paper they're printed on as their process of judgment is badly flawed. Hence, why I believe the vast majority of non-fully-independent financial advisors/firms are card-carrying members of the "Don't Worry, Be Happy" crowd. The party line is always what they will tow until there's nothing left to tow. http://www.trinityfsem.com/audio/SNL2.wvx

"Delay always breeds danger."
- Miquel de Cervantes

While I hope to identify several factors that have set the stage for economic, social and political upheaval unlike anything America has ever faced, I can cut to the chase in a sense by urging you to watch this 11-minute video. http://www.grandich.com/video/60min.162mb.wvx It's front and center on the number one economic factor that makes me so concerned for 2008 and beyond. If, after watching it, you disagree with the video's assessment, don't bother reading further as there's nothing more I can say or do to convince you my argument is the correct one. If, after watching it, you concur, I urge you not only to read the rest very carefully, but pass this on to everyone you care about.

American Has Been Robbing Peter to Pay Paul, But Peter is Tapped Out

While I'm as patriotic as the next guy, I'm sorry to say that Uncle Sam is no longer Beloved Uncle to the world. In past generations, one could count on one hand the number of countries where Americans were truly ***not*** welcomed. Today, that same hand can count what countries welcome us with open arms. Canada is a perfect example: I've been traveling there regularly since the late 1980s. Up until the current Bush as President, the deepest arguments I ever had with my Canadian friends were over whether or not they were responsible for Cold Fronts and about how my three-time Stanley Cup Champion NJ Devils were mostly

Canadian players. But since Iraq, I get an earful about how messed up we are and how bad George Bush is to the point that I think it's best for me to start wearing a button on my trips north saying, "I voted for Kerry".

There are two factors that lead me to the most bearish stance I have ever taken in my entire career:

- Aging crisis
- Geopolitical Time Bombs

I believe they are mega-crises in themselves and together will lead to the darkest period ever for America.

Too Much Stuff–

Canada has been a home away from home for me and I have no better friends in the world, including America, than Canadians. So it came as no surprise to me that a beautiful Canadian lady, Shania Twain, could sing such a perfect song about how too many Americans live their lives: http://www.youtube.com/watch?v=27vdkmU8ErE Listen to the lyrics (as hard as that can be with Shania in the video). It's the 50 and under American crowd, no ifs, ands or buts. Americans have been led by Wall Street and Madison Avenue to believe that more money equals more happiness. They would like us to believe that the owner of a bus company is always happier than a guy driving the bus when, in fact, nothing could be further from the truth. The fact is, Americans have too much stuff.

Both of my grandfathers passed away before I was born, but I always imagined them visiting me back in the late 1990s before I became a recovering materialist. I pictured them visiting my 5,000 square foot home on five acres, a home the size of which only the mega-rich had back in their generation. I envisioned telling them about how many of my neighbors had even bigger homes, and I tried to justify why a home five times the size of the home in which my father and mother were raised was necessary. I don't know whether or not they would have accepted my reasoning, but when I took them out on a main road, they would surely have discovered how screwed up we had become in just two generations. You see, they would see a sign that says "Public Storage" and ask what that was for? I would tell them people like me, with homes five times bigger than theirs, pay these places to keep our stuff. My grandfathers would certainly conclude we now have far too much stuff – and we don't truly "own" most of it. Our parents and grandparents didn't need public storage, yet somehow they got through it.

In a country where we spend $41 billion a year on our pets (more than the gross domestic product of all but 64 countries in the world), and where our media would sooner spend hours covering the trials and tribulations of Britney Spears than how tens of millions of Americans will go to bed hungry tonight, it's no wonder Shania and her husband could write such an appropriate song.

BOOYAH can KILLYAH! –

Only in America can an always-in-need-of-attention former money manager (Cramer) become the poster child for the "Don't Worry, Be Happy" crowd, thanks to a cable station whose call letters ought to be TOUT-TV instead of CNBC-TV. They are, undoubtedly, the Pied Pipers of the financial media, almost always requiring "rose-colored glasses." While just one of their on-air personnel tries to be "fair and balanced" (Rick from Chicago), the rest of the crew ranges from the epitome of arrogance (Haines) to the-cup-is-always-half-full five-star-general of the Don't Worry, Be Happy crowd, Larry Kudlow. Anyone with the slightest bit of understanding of financial markets only need watch 10 minutes of Bloomberg Television (U.S.) or Business News Network (Canada) to realize how bad TOUT-TV really is. Given what faces America on several fronts, the vast majority of the investing public is far too complacent. The millions of coming casualities will pile up outside the pom-pon doors of CNBC in Fort Lee, NJ.

> ***" Only in America can an always-in-need-of-attention former money manager become the poster child for the "Don't Worry, Be Happy" crowd..."***

Economic calamity knocking on the door –

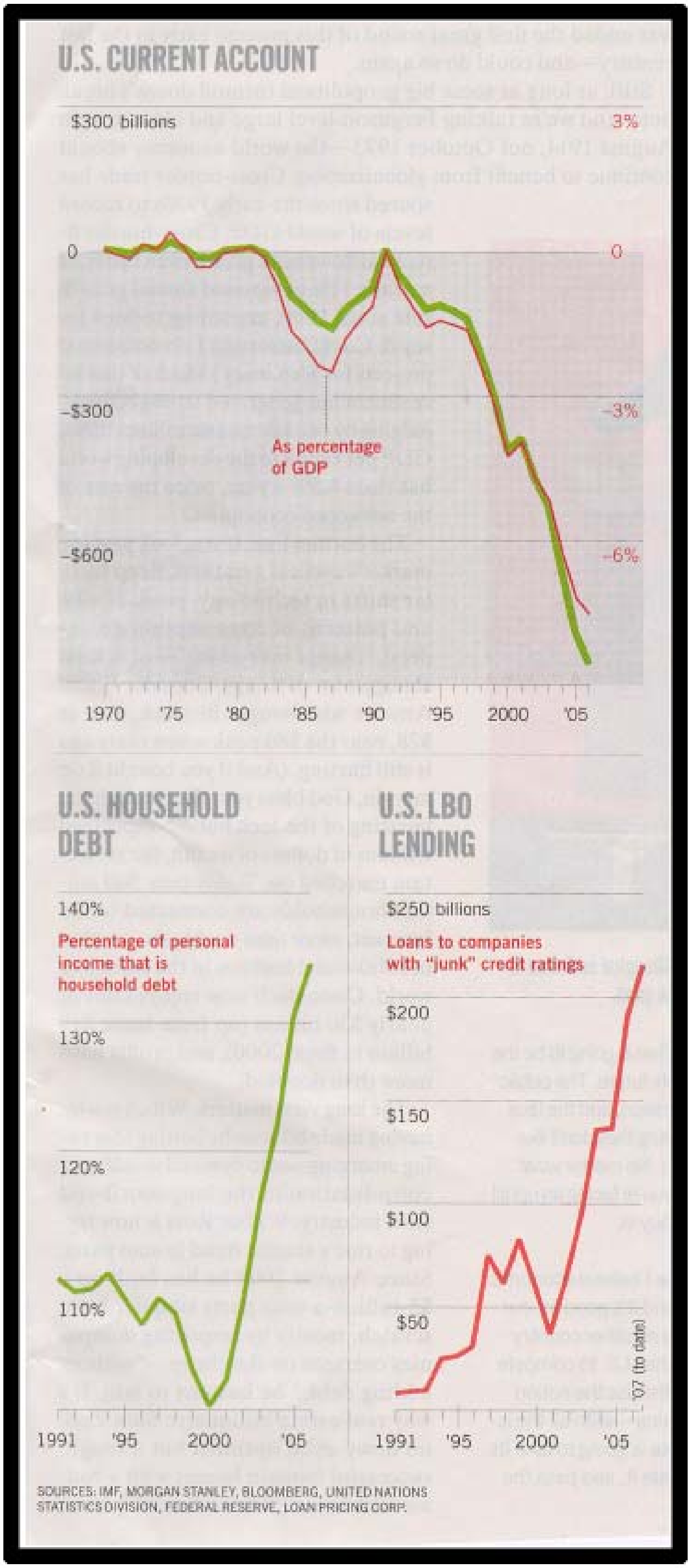
Who shall we believe: the merry men and women of TOUT-TV or the man in charge of our nation's financial books... one who is not beholden to any political party, financial service firm or advertisers?

As noted at earlier, I believe this video will be viewed as one of the great prophecies of the 21st century. http://www.grandich.com/video/60min.162mb.wvx Mr. Walker has again spoken out about the "unsustainable policies and practices with fiscal deficits, chronic healthcare underfunding, immigration and overseas military commitments" facing America, as reported here:
http://www.trinityfsem.com/docs/ft_8-14-07.pdf

Thankfully, many in the financial media don't suffer the biases commonly seen on TOUT-TV. An absolute bulls-eye article was written back in September on MSN Money about what one of the world's foremost experts on credit derivatives, Mr. Satyajit Das, had to say about the credit crisis. While TOUT-TV claims the crisis is over, author Jon Markman stated in the article "Das... suggest[s] that we're actually still in the middle of the national anthem before a game destined to go into extra innings. And it won't end well for the global economy." http://articles.moneycentral.msn.com/Investing/SuperModels/AreWeHeadedForAnEpicBearMarket.aspx

The investing public truly has no real comprehension of exactly how big the first real global asset-class bubble is. They have been sold a bill of goods, told that the

> **"Running into debt isn't so bad. It's running into creditors that hurts."**
> - Unknown



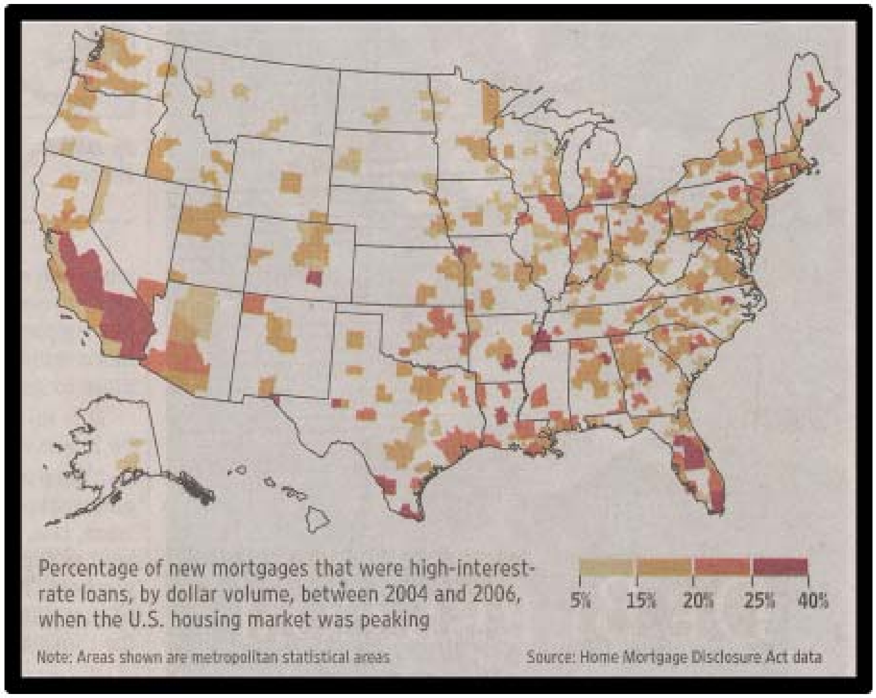
Graphics: Forbes.

plethora of new and ingenious financial instruments were designed to protect them, not hurt them by spreading risk around. The fact is, they've been designed to hide risk and confuse buyers. To say that the credit crisis simply will work out okay in the end is foolish since no one really knows how the hundreds of interlocking and often novel factors will turn out.

We've gone from a nation where many of our parents and grandparents didn't even have a credit card to where owing money has become the American way. We've become the world's largest debtor nation in part because we no longer ask ourselves "can we afford it?" but instead, "can we make the first payment?"

US comptroller general David Walker is, IMHO, the only 100% pure financial advocate American citizens have in Washington these days. He has not only correctly pointed out the advanced financial cancer from which we suffer, but he has been sounding a warning that the U.S. economy is vulnerable to hostile financial actions by nations that are not its "allies". He warns that the huge holdings of American government debt by countries such as China, Saudi Arabia and Libya has placed a powerful financial weapon in the hands of countries that may be hostile to U.S. corporate and diplomatic interests. Make no mistake about it: these countries realize what leverage this gives them-especially behind closed doors.

Since 2005, Americans have been spending more than they have been taking home - a pattern not seen in over 70 years. Thanks to the real estate bubble, the American home became an ATM for many. But with the burst of the housing bubble, that "buy now, pay later" tool is no longer available for most.



Graphic: Wall Street Journal

Consumer spending, the jet fuel that supplies 70 percent of economic activity, has sprung a leak thanks to mounting credit card debt and falling home prices. The subprime meltdown may have been the attention-getter recently, but a monster lurking below the surface is a credit card crisis. "The last life preserver of home equity loans has just been ripped away, so families are now alone in a sea of debt," said Harvard Law School's Elizabeth Warren, a law professor and expert on consumer debt. "Whether they drown quickly or slowly is an open question, but they will drown," Warren said (she can forget about appearing on TOUT-TV now). She added, "The numbers don't lie on this; there aren't any other options here."

"Never spend your money before you have it."
- Thomas Jefferson

American consumers, the ones Shania Twain sings about, have been living way beyond their means, thanks in part to the wealth effect caused by the rapidly rising value of their homes. According to the public policy group Demos, homeowners tapped $1.2 trillion in home equity from 2001-2006, often to cover credit card debt. The Federal Reserve recently stated that the amount of revolving debt, mostly on credit cards, held by American families grew by 21 percent to $907 billion over the last five years (sing it again, Shania.) http://youtube.com/watch?v=27vdkmU8ErE Wage growth during that period fell way short of spending so refinancing and new home loans kept the debt binge going. Unfortunately, that punch bowl is now dry.

It comes as no surprise that in the first quarter of 2007, Americans paid off their credit card debt at a slower rate compared to the previous year, according to Moody's Investors Service. "We are already seeing a rise in the number of people who simply no longer can pay," said Christian Weller, senior fellow at the Center for American Progress.

So why does this matter? Debt-ladened consumers have been a boon to the economy, but are now staggering to find another punch bowl. As Shania so poignantly identified, the credit card occupies center stage in the average American household. And while the buying binge is clearly unsustainable, the safety nets in which our parents and grandparents prided themselves, personal savings, have totally disappeared. The nation's savings rate has fallen to a Great Depression–era low of just 0.4 percent of disposal income. Make no mistake about it; consumers are caught in a vice of debt and their own government is even worse.

"And to preserve their independence, we must not let our rulers load us with perpetual debt. We must make our election between economy and liberty, or profusion and servitude."
- Thomas Jefferson

Another budding economic crisis is the plight of public and private pensions. The net effect of more people for the system to support, longer life spans, higher costs of health care, and in many cases serious underfunding, has made this another crisis not yet on most people's radar... but it's about to hit the fan. Case in point: New Mexico's public pension plan, which is sinking deeper and deeper into a hole. Over the past four years, it has accumulated a $937 million deficit, at a time when many of its workers are depending on it to pay for those so-called golden years. In hopes of boosting returns, last year their state legislature gave managers the authority to put money into alternative investments such as real estate, private equity and yes, hedge funds.

Sadly, despite the recent "hiccup" (Booyah!), state pension plans show no sign of abandoning their recent push into hedge funds and other nontraditional investments. Like junkies, they really can't afford not to "spin the wheel" as state pension plans have deteriorated from a $20 billion surplus in 2001 to a $381 billion deficit last year, according to the National Association of State Retirement Administrators (NASRA). **This deficit means the assets they have in their portfolios today aren't enough to cover the present value of the long-term retirement promises they made!**

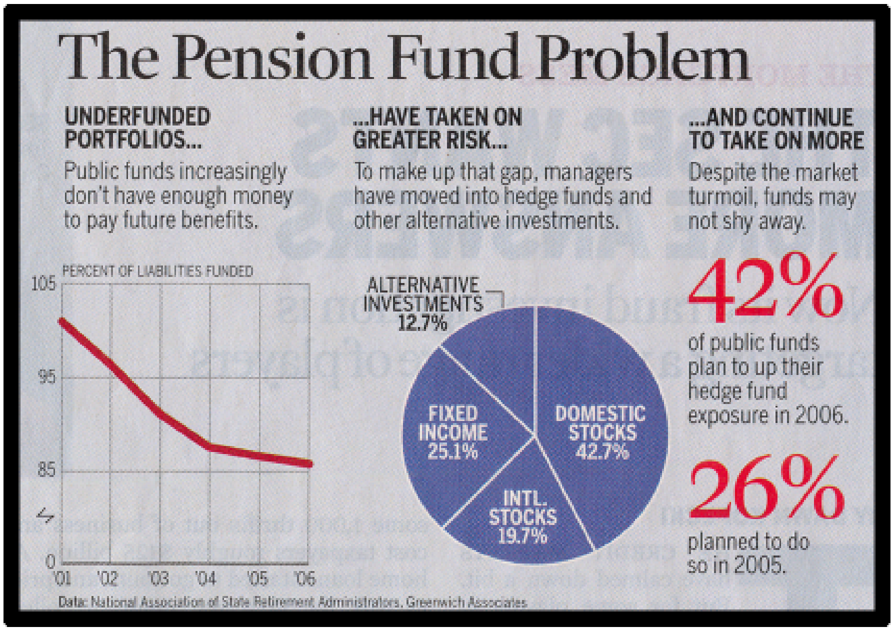


Chart: Business Week

Like it or not, there are only two possible courses of action: ask state and local contributors already strapped to make higher contributions or find a way to juice investment returns (music to the ears of the Don't Worry, Be Happy" financial institutions who have a bevy of products that almost can't miss – but for who?).

Here in New Jersey, despite increasing a public worker's retirement age from 55 to 60 and requiring new retirees to contribute toward health care, NJ is far behind in its obligation to pay for retiree's health care to the tune of about $58 billion. How did we get to this point? Former NJ Governor Christine Todd Whitman (the same person who said the air quality at Ground Zero was fine, only to see so many good people who tried to help there now sick, dying or dead) in 1994 stopped putting aside money to pay for health care it promised to retired public workers on the "reasoning" that health care inflation had leveled off and it looked like a new national health insurance system would take the burden off the state. For several years, NJ swept this problem under the rug but a new accounting rule requiring all state and local governments to make projections on costs has now brought this problem to the surface. The good news (if that's what one wants to call it) is the *New York Times* reported that it appears no state is as far behind at funding its health commitment as New Jersey (and when you throw in local towns, counties and other NJ government entities, the shortfall reaches $68 billion.)

"The trouble with ignorance is that it picks up confidence as it goes along."
- Arnold Glasgow

Geopolitical Concerns Will Have Lasting Impact

There's a long list of other economic problems, some I will discuss later in my markets segments, but geopolitical concerns here and abroad are, IMHO, going to impact the markets unlike anything in recent memory. I believe they can have

a profound effect on a number of fronts and are not currently priced into most markets.

> **"What the American public doesn't know is exactly what makes them the American public."**
> - Actor Dan Akroyd in "Tommy Boy"

As noted earlier, Uncle Sam is no longer the world's favorite Uncle. Unfortunately, most Americans are unaware of how important this fact is to their future. Even worse, almost all Americans have little or no understanding of how serious the so-called "War on Terror" really is. First and foremost, we face an enemy unlike no other in our entire history. Unlike former enemies Germany, Japan and the Soviet Union, who wanted us dead but wanted to live to enjoy the fruits of their labor, we now face an enemy who thinks killing us and dying while doing so actually is the ultimate victory (although I never understood why these suicide bombers don't cop on to their handlers that if they are indeed going to be rewarded with 14 virgins, why aren't their handlers strapping bombs around their own bodies?).

Islamic extremism –

It's totally politically incorrect to discuss the following, but my allegiance is to express my thoughts and let the chips fall where they may. I think the following is crucial to understand, as the ramifications from it are not remotely priced into the markets except to some extent in oil and, even less, in gold.

Formal Islamic theology, unlike Christian theology, doesn't allow for the separation of state and religion: they're considered to be one. Before Muslim extremism grew, Islamic jurists had set rules of interaction between Dar ul-Islam (the Land of Islam) and Dar ul-Kufr (the Land of Unbelief) to cover almost every matter of trade, peace and war. Unfortunately, radicals and extremists have taken these rules three steps farther. The first is to argue that, since there is no pure Islamic state, the whole world must be Dar ul-Kufr. Secondly, since Islam must declare war on unbelief, they have declared war upon the whole world. And finally, since they now believe the world is a Land of War (Dar ul-Harb), the sanctity of the five rights that every human is granted under Islam—life, wealth, land, mind and belief—are allowed to be destroyed, including the treachery and cowardice of attacking civilians. **I'm not saying who's right or wrong, just trying to get you to understand the significance.**

The Middle East, soon to be front and center –

While most Americans have become accustomed to troubles in the Middle East, I don't believe they have a real clue on how many different fronts these troubles

are close to impacting them (and their gas-guzzling SUVs). I will attempt to give a brief overview, but urge serious investors to earnestly comprehend the factors coming together in this area of the world.

Iraq –

While I'll leave it up to the politicians to decide what happens in Iraq, I do believe this much: a cut and run will not have the same serendipitous aftermath as Vietnam. Unlike Iraq, Vietnam was a peripheral arena of the Cold War and strategic resources were not at stake. Vietnam was a pawn, not a pillar to the world stage. The Middle East, by contrast, is what Israel's fabled former Defense Minister Moshe Dayan has called the "elephant path of history". The world's worst political and religious pathologies, combined with oil and gas, terrorism and nuclear ambitions call it home.

There's little doubt that a Democratic victory for presidency in 2008 is all but likely to lead to a much softer stance towards Iraq than President Bush's. What also happens in the region, especially with Iran (more in a moment), will also have a great impact. It's hard to imagine, but I truly believe Iraq is just the opening act to much more complex events set to unfold.

"The essential element in personal magnetism is a consuming sincerity — an overwhelming faith in the importance of the work one has to do."
- Bruce Barton

A significant part of my Middle East outlook is based on my personal belief that President Bush believes he's being called by his faith to take certain actions in the Middle East and the War on Terror. Because of this, I don't believe he's going to leave office without further serious military action, particularly regarding Iran. I don't agree or disagree but believe he's a man of his convictions and therefore he's not done on the world stage.

Iran –

It's the main act yet to be played out. Part of the reason I feel President Bush will take military action and/or support Israel against Iran is the fact that he feels a multiple of sundry warnings to Iran have gone unheeded. In early 2002, he cautioned Iran that "if they in any way, shape or form try to destabilize the Afghan government, the coalition will deal with them." In mid-2003, following revelations about the extent of Iran's secret nuclear programs, Bush insisted the U.S. "will not tolerate the construction of a nuclear weapon." At the beginning of this year, as evidence mounted that Iran was supplying sophisticated, armor-penetrating munitions to Shiite militias in Iraq, Bush said, "We will seek out and destroy the

networks providing advanced weaponry and training to our enemies in Iraq." Just last month, in a speech to the nation, President Bush said, the destructive ambitions of Iran must stop."

http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2007/09/16/wiran116.xml

http://www.foxnews.com/story/0,2933,296450,00.html

http://apnews.myway.com/article/20071011/D8S79UHO0.html

A recent action in the Middle East, one that received very little press, is, IMHO, the straw that broke the camel's back and can give Bush the cover for the inevitable military action against Iran. http://web.israelinsider.com/Articles/Security/12049.htm The New York Times wrote that one Bush official said Israel had carried out reconnaissance flights over Syria before this raid http://www.msnbc.msn.com/id/21282612/ and took pictures of possible nuclear installations that Israeli officials believed might have been supplied with materials from North Korea. This is a powder keg development and while not a market mover today, is going to become one, and light a very short fuse in the Middle East.

> ***"With only 14 months left in Bush's term, I'm convinced we're going to see a serious attack on Iran before long."***

With only 14 months left in Bush's term, I'm convinced we're going to see a serious attack on Iran before long. Many of the expected pieces to the puzzle have been coming together:

- The designation of Iran's Revolutionary Guard Corps as "specially designated global terrorist by the U.S." http://www.atlanticfreepress.com/content/view/2608/81/

- France, once almost automatically opposed to anything the U.S. desires to do, has been almost outspoken in its siding with the U.S. versus Iran's nuclear ambitions. France's new government under the leadership of Nicolas Sarkozy recently called for European Union-wide sanctions against Tehran.

- Even Saudi Arabia, notorious double agents, said that Iran's standoff with Western powers over its nuclear program is heading toward a confrontation.

- The US has been training Gulf air forces for war with Iran. http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2007/09/30/wiran130.xml

- The "fighting words" are all coming together:
  http://www.jpost.com/servlet/Satellite?pagename=JPost%2FJPArticle%2FShowFull&cid=1183980036210
  http://www.ynetnews.com/articles/0,7340,L-3442638,00.html
  http://www.timesonline.co.uk/tol/news/world/asia/article2512097.ece
  http://www.jpost.com/servlet/Satellite?cid=1189411516007&pagename=JPost%2FJPArticle%2FShowFull

Lebanon –

Not the main act but fuel for the fire. Just a few weeks ago, the fourth anti-Syrian member of the Lebanese parliament in two years was assassinated. He was the latest victim of a protracted political crisis in Lebanon that both preceded and was exacerbated by the February 2005 assassination of former Prime Minister Rafiq Hariri. While a mass uprising after the assassination put an end to Syria's 29-year military presence in Lebanon, Syria has been looking to reassert control again. I suspect Hezbollah, which presides over a semi-autonomous territory with a private army of its own within Lebanon, will begin a new terror campaign against Israel. They need Syria to gain control over Lebanon again in order to best continue its struggle against Israel, and Iran needs Syria in order to expand its reach in the Middle East. So, both continue to funnel support to Hezbollah.

Hezbollah's leader Sheik Hassan Nasrallah has made it known it can now fire rockets into all of Israel.
http://www.breitbart.com/article.php?id=D8QID38G2&show_article=1
Why is this important? It's just another potential trigger to the coming explosion in the Middle East.

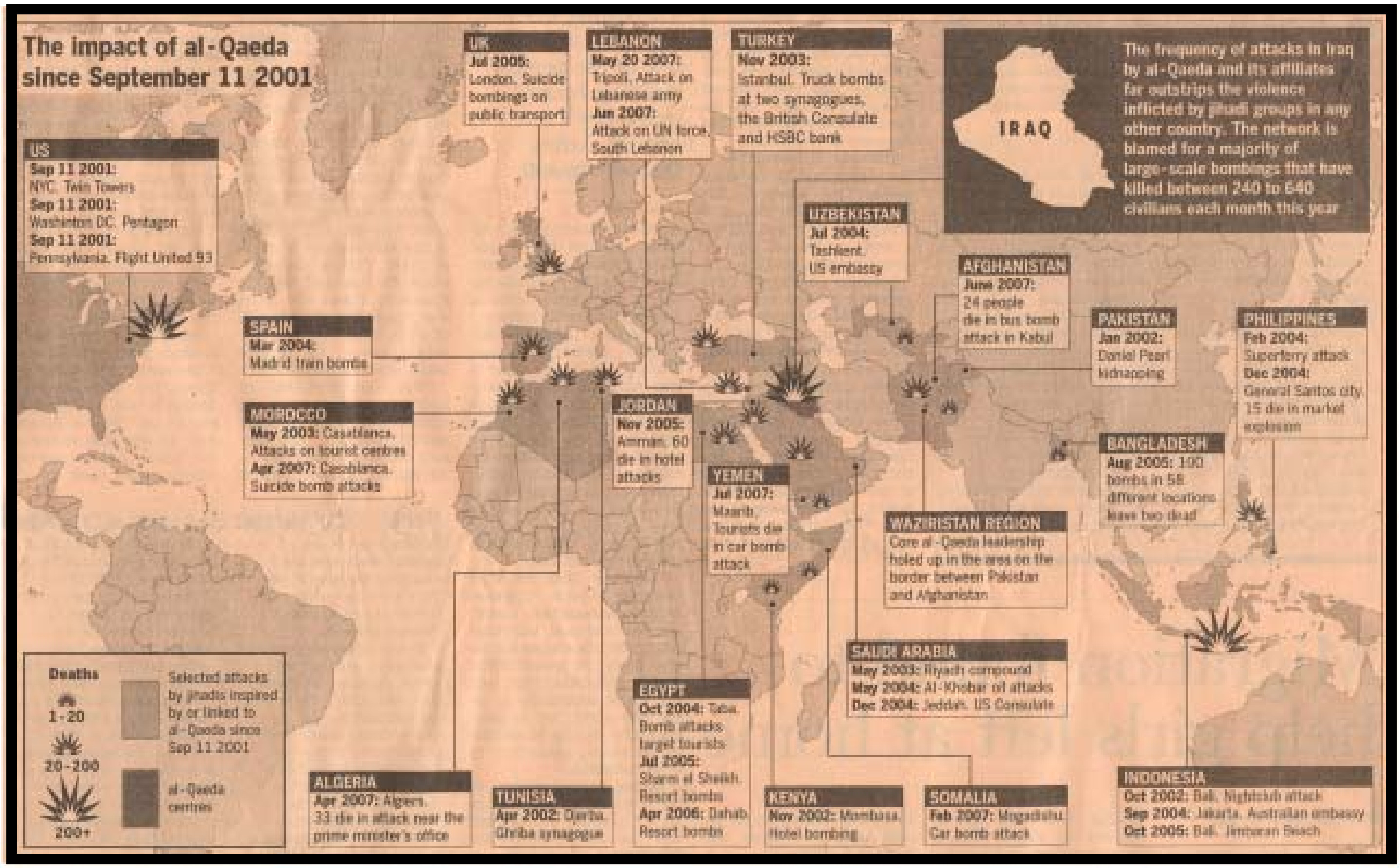
"One of the most striking differences between a cat and a lie is that a cat has only nine lives."
- Mark Twain

al-Qaeda –

It saddens me to say that in my heart of hearts, it's not a question of "if" another terrorist attack takes place on American soil, but "when". And when it does, 9/11 will sadly not be the "exception" to the rule – which, when it comes to terrorist attacks, is what most Americans now believe.

Despite being severely undermined as an organization in the six years since 9/11, al-Qaeda has seen the violent fanaticism it promotes not only survive, but thrive in many parts of the world. While severe crackdowns in Saudi Arabia and to a lesser extent, in Indonesia, have seemingly reduced the jihadi threat there for now, new frontlines are opening in North Africa and Lebanon. Attacks by al-Qaeda-inspired militants may not have come close to the scale of 9/11, but they have multiplied in number and diversified in geographic reach. What's most alarming about this are reports that mosques and religious schools are not the main hunting ground for new blood, but instead the Internet is fast becoming al-Qaeda's best marketing tool.

Again, I believe geopolitical surprises are totally not priced in financial markets



Graphic: Financial Times

and al-Qaeda is a front runner to be part of the negative surprises awaiting the markets.

http://www.msnbc.msn.com/id/19717961/site/newsweek/print/1/displaymode/1098/
http://www.msnbc.msn.com/id/20466414/site/newsweek/

Two Other Flashpoints

Pakistan –

A reported strong ally of ours in the War on Terror, Pakistan is at a crossroads. On one hand, General Pervez Musharraf has done an admirable job on the economic side of things. When he seized power in a military coup in 1999, Pakistan was nearly bankrupt, under international sanctions, at daggers drawn with India and – through the illicit dealings of A.Q. Khan, father of the Islamic bomb – the world's leading proliferator of nuclear technology. Islamabad was also the Taliban's best friend and enabler. Today, it finds its annual GDP for the last three years averaging 7.2% and inflation rate down from 24% in 2000 to single digits. Direct foreign investment has increased almost seven-fold in five years.

Despite all this, the General has had numerous political battles of late that some think has weakened his strong hand or even begun the beginning of the end for him as a potent leader. Pakistan bears watching.

Afghanistan –

While it's not front-page news like Iraq or Iran, Afghanistan is yet another burning match. http://www.newsday.com/news/nationworld/world/ny-wopaki075405263oct07,0,1518944.story

A Major Concern

Geopolitical concerns abroad are, without a doubt, one of my major concerns. But, here in the gold ole USA, I have spoken in the past about my expectation of the Democrats and Republicans becoming the Hatfields and McCoys of the 21st century. I've felt that the fighting would become so bad that any real new legislation of merit would grind to a halt at a time when America faces some of its worse economic and social issues. It's been my belief that this will badly impact us on the world stage by causing our creditors to wonder if will we ever get our house back in order.

> **"Only two things are infinite, the universe and human stupidity, and I'm not sure about the former."**
> - Albert Einstein

Okay, I assume if you read this far, you either have nothing better to do (my sympathies) or you concur with me that what David Walker is predicting is very real... even if the financial markets don't seem to concur at the moment. I'll also assume you appreciate my belief that geopolitical events are going to move to the forefront and they, too, are un-consuming at the moment to the "Don't Worry, Be Happy" crowd.

While I will touch on my views for the next month to a year, my main purpose of this newsletter is to discuss factors that I believe can impact us for years to come. With that in mind, I pay little heed to the market's direction day to day but concentrate fully on the ever-increasing social, economic and political developments that, IMHO, are only getting worse.

U.S. Stock Market –

I have personally shorted the market via the purchase of two ETFs (Exchange Traded Funds) ULTRASHORT QQQ PROSHARES (symbol QID) and ULTRASHORT S&P500 PROSHARES (symbol SDS). I can count on one hand how many times since 1984 I have actually done this. I'm not suggesting anyone do the same but tell you this to let you know how personally bearish I am.

As Shania Twain so aptly noted in Ka-Ching, American consumers have been over-consuming and over-investing, mostly in housing, for quite a while. The broadest measure of household behavior, the financial balance, dipped into significant deficit in 1999 for the first time ever and hasn't looked back since. This balance represents the net flows of household income minus consumption and investment. The deficit has continued to rise and in 2006 hit 5.1 per cent of GDP. To return to the long-run average surplus before 1999, households need to cut consumption and investment by more than $900 billion per year. To appreciate how much of a cut that would be, please note all residential investment spending in 2006 was $765 billion.

It would be foolhardy to think a return to surplus could take place in a single year, as it would cause a very serious recession. However, the bad news is the adjustment eventually has to happen, as deficits can only exist if they can be financed and the two key sources that finance consumers into this deficit—cheap mortgages and rising house prices—are going bye-bye.

This fact of life, something TOUT-TV and its five-star general Larry Kudlow (and the talking heads he wheels on to support his flawed economic outlooks) seem to be missing, is undeniable. And what these rose-colored glasses folks can't explain is how a consumer correction is far different than what occurs in typical downturns. In a normal economic slowdown, corporate excess is unwound by lay-offs, plant closings, fire sale of inventories and financial restructuring. This is usually achieved relatively quickly, albeit painfully. A consumer correction is different because the single biggest problem is over-investment in housing. It's not impossible for everyone to downsize at the same time so the correction lasts a lot longer. Lowering interest rates is not the cure-all, because those who are over leveraged are not holding much higher borrowing rates than where the Fed can bring rates down to without destroying the U.S. Dollar (more shortly).

"A generation which ignores history has no past and no future."
- Robert Heinlein

> "Mergers of industrial corporations and of banks were taking place with greater frequency than ever before, prompted not merely by the desire to reduce overhead expenses and avoid the rigors of cut-throat competition, but often by sheer corporate megalomania. And every rumor of a merger or a split-up or an issue of rights was the automatic signal for a leap in the prices of stocks affected – until it became altogether too tempting to the managers of many a concern to arrange a split-up or a merger or an issues rights not without a canny eye to their own speculative fortunes."

Does this above quote sound like an analogy of the private equity bubble we saw up until the credit crunch in August? Actually, it's a quote from Frederick Lewis Allen's "Only Yesterday" book about the 1929 stock market crash.

Pool operators ran things up to the crash of 1929. I think today's pool operators are hedgefunds and just like their predecessors, who ignored macroeconomic and corporate deterioration, are partying as never before. Interestingly, in Allen's book (which was written in 1931), he said, "One could indulge in all manner of dubious financial practices with an unruffled conscience so long as prices rose. The Big Bull Market covered a multitude of sins. It was a golden day for the promoter..." Replace promoter with hedgefund and I believe it describes the market today.

Another misleading factor touted is the health of the American corporation balance sheet. Please read
http://www.ft.com/cms/s/0/5a4bbbba-568c-11dc-ab9c-0000779fd2ac.html

> **"There are invisible rulers who control the destinies of millions. It is not generally realized to what extent the words and actions of our most influential public men are dictated by shrewd persons operating behind the scenes."**
> - Edward L. Bernay

Market manipulation –

I have a cheap bridge for sale if you don't believe the markets are manipulated.
http://www.lewrockwell.com/duffy/duffy13.html
http://www.nypost.com/seven/10092007/business/whos_ben_chatting_with_about_t.htm?page=2
http://www.nypost.com/seven/08162007/business/plunge_protectors_are_all_over_market_meltdown_business_john_crudele.htm

Manipulation may win the battle but never the war. The very fact that such drastic actions are needed to take place tells me how dire the real picture is. And as always, the investing public will end up holding the bag.

U.S. Dollar –
Buddy, can you spare a dollar?

Throughout 2006 and 2007, I have stated, "The only party who doesn't know the U.S. Dollar is dead is the U.S. Dollar." It has fallen more than 20% in that period. While it's oversold technically and a bear market rally of 5% to 10% is possible, my comments here are not for the next few months but for the next several years.

The biggest joke has been the so-called "Strong U.S. Dollar" policy by the US administration. Jim Willie, someone with whom I have not always seen eye to eye, penned a compelling and accurate commentary centered around the U.S. Dollar.
http://news.goldseek.com/GoldenJackass/1191438815.php

The *BooYah* gang has no real understanding of two independent crises playing out in successful fashion: one is the crisis of the securitized financial markets; the other is the crisis of global imbalances, a micro and macro event respectively. While the debated-about global imbalances that raged in 2004 and 2005 died down, the problems have not been resolved.

In 2004, two economists wrote a very important paper about this.
http://elsa.berkeley.edu/~obstfeld/NBER_final.pdf
They constructed a model that shows in detail how global imbalances are likely to unwind. They argued that the process would begin with a sudden shock – **they presciently envisaged a US recession brought about by a fall in housing prices. As part of this process, they said, the value of the dollar would fall significantly. Hello????????**

Global imbalances occurred because despite the constant dribble from TOUT-TV, America is no longer the economic powerhouse; its empire has begun to fall in earnest, just like all past great empires, including the Roman and British empires.

Bottomline

As I noted at the outset, one doesn't have to go past this video http://www.grandich.com/video/60min.162mb.wvx, IMHO, to know what lies ahead for the US. However, when you combine it with a laundry list of serious economic and geopolitical events unfolding, the best course of action for Americans until further notice is to be a live chicken versus a dead duck.

> **"If stock market experts were so expert, they would be buying stock, not selling advice."**
> - Norman Augustine

Markets Commentary

The late Kennedy Gammage, the finest gentleman ever to publish a market newsletter, used to say, "Those of us who make a living looking into the crystal ball end up learning how to eat lots of broken glass." With that in mind, let me make an educated guess (at best) on the following markets:

U.S. Stock Market -

As noted earlier, my bearishness for U.S. stocks (not including precious metals and uranium related) has become so acute that I have taken a very rare step for me and shorted the S&P 500 and NASDAQ. Because I see no long term way of avoiding a plethora of social, economic and political ills and the short swoon in August as a gift–from-God-warning of things to come, I would sooner be 100% cash versus 100% long. Knowing as my old boss stated 20 years ago that almost no one sells everything or close to everything, I want you to recall how you felt in August and remember the old saying, "Fool me once, shame on you. Fool me twice, shame on me!

> ***"As noted earlier, my bearishness for U.S. stocks ...has become so acute that I have taken a very rare step for me and shorted the S&P 500 and NASDAQ."***

Gold –

Outside of a couple of fortunate side steps to avoid a correction, I've been aggressively bullish on gold since just north of $300. Much of what kept me long and strong remains intact:

- Consistent physical demand, especially on corrections, signifying strong pent-up demand.
- The weakening U.S. Dollar. While it can consolidate recent losses and even have a bear market rally, the historical inverse relationship of the dollar and gold remains the single strongest advocate for being long gold. I think my comments in this issue make it abundantly clear that the long-term direction for the U.S. dollar is still lower. Knowing that about 85% of the time gold moves in the opposite direction of the dollar, the Dollar remains a bullish factor.

- Central Bank Sales are less and less a factor. Gold has demonstrated the ability now to withstand Central Bank sales, something that used to cap it or knock it lower for a long period not too long ago.
- New gold supply is tough to come by as the mining industry faces many hurdles (more shortly).
- Manipulation. Bill Murphy, GATA (http://www.gata.org) and Dimitri Speck http://www.gold-eagle.com/research/speckndx.html have long argued (and successfully, in my book) that the gold price has been manipulated and/or capped. Such actions no longer seem to have any long lasting effect and have helped set gold up for a powerful third leg up in its secular bull run, a move I think can take us to new all-time highs above $850 in 2008. Buckle up, as volatility is going to lead to big swings where daily trading ranges can be at least $10 or more from highs to lows. The shorts are losing the war but will throw in everything, including the kitchen sink, before it's all said and done.

Silver –

Has lagged gold for a while now and while always "second fiddle" in my book to gold, appears to be setting up technically for a meaningful run.

PGMs –

For several years now, the experts have predicted this is the year supply finally surpasses demand, yet, platinum is near record highs. Palladium is the poor man's platinum like silver is to gold. It, too, should remain in platinum's shadow except for a couple of peeks out.

Base metals –

While copper has not fallen, other key metals like nickel and zinc have fallen more than enough to justify my bearish stance toward base metals over precious metals this year. While I feel we could have a tradable rally this quarter, I desire to remain heavily weighted towards precious metals and uranium for the foreseeable future.

I have a growing concern about another potential impact on base metals and markets in general and that is China's runaway stock market and economy. The stock market has doubled since the start of the year and has only had momentary interruptions. My concern now is valuation. While declared earnings growth is around 75 percent, growth in operating earnings (profit from actually running a business) is 33 percent. Most of the rest comes from property and other investments. Take out these gains and the average PE is around 60. Please understand the fact that the difference between net and operating profits means these companies are speculating in the stock market themselves. While their market remains grossly unregulated, you have to believe if it ever wants real credibility not only will the heavy corruption have to wane, but more realistic valuations will need to take hold. Getting to that could be ugly.

China's inflation rate is heading higher and could be troublesome down the road. But, the real straw that breaks the camel's back is the continuing pressure building in Washington for sanctions on trade with China. President Bush has managed to avoid labeling China as a currency manipulator, which would by law require the U.S. Treasury Department to initiate bilateral negotiations or pursue a claim with the IMF. More and more lawmakers believe China deliberately undervalues its currency to give Chinese companies an unfair advantage in international trade. I have no doubt the Democrats will talk this up as we get closer to the general election in November 2008. Meanwhile, the Chinese government has threatened to use their trillion dollar reserves as a "nuclear option."

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/08/07/bcnchina107a.xml

I've not had any real big concerns about China, but with seemingly no one in the bearish camp and standing room only in the bullish camp, I think it's time to be a Maytag repairman in the bearish camp.

Uranium –

First and foremost, I am now officially jumping back in the bullish camp. A much needed but painful correction is all but over and as previously forecasted, I believe only companies with clearly defined production or real deposits that have more than average chances to become producing mines will rule the day. The risk on uranium prices is $50 to the downside and $150 to the upside.

The world is now addicted to electricity for business and pleasure. We live in an "always on" world. From computers to cell phones and air conditioning to streetlights, we need more and more juice. In fact, experts say we'll need 40% more electricity by 2030. While nuclear alone won't get us there, it's winning out over most other avenues. New power plants fueled by coal have been put on hold in the U.S. because conventional coal plants are too dirty to build and the cost of cleaner plants is too high. Geothermal power and wind are useful but won't even come close to being the main source for electricity. On the producer side, I fancy Denison over Cameco and find Uranium One interesting. On the development side, I think Aurora, Laramide and especially Ur-Energy are worthy of your interest.

"One of the biggest moves in quite some time is nearing. I believe we could see a $10-$20 move in a matter of days or weeks."

Oil –

One of the biggest moves in quite some time is nearing. I believe we could see a $10-$20 move in a matter of days or weeks. The only difficulty is I don't know for sure which way (anybody got a coin?). There are two wholly opposite scenarios as far as I can see with no middle ground (so bet on middle ground as the winner). On one hand, hot money continues to drive oil higher on the belief that the risk premium (supply interruption

from weather and/or geopolitical) will continue (estimates the premium is anywhere from $15-$20). The small amount of bears argue crude inventories are at their best levels in several years, refiners are in much better shape and the slowdown in the U.S. is getting more pronounced and could spill over into other key areas of the world. My best guess is that we have a few dollars left to the upside ($85-90 being the absolute top) and could see a print in the $60s before next summer. But, $70 oil is still not going to be cheap until a few years from now when we break $100.

U.S. Dollar -

Other than some corrections and bear market rallies, the only thought that should enter your mind when thinking of the future of the U.S. dollar is this:
http://bands.army.mil/music/bugle/calls/taps.mp3

Mining and exploration shares –

While we've witnessed numerous mergers and acquisitions (which should continue strong through 2008) and had some big individual winners, given how well metal prices have done, mining and exploration stocks have underperformed.

The old argument of leverage is what has always driven investors to shares versus the metals themselves. It worked like this: stable operating costs and a rising metals price would grow bottom-line profits substantially. An example would be this:

> *Acme Mining's total cost to produce an ounce of gold is $300. Gold is $400. Profit is $100 or about 33%. Everything stays relatively the same except gold rises to $500. Gold rose $100 or about 25% (from $400) but profits are now 66% or doubled ($500 -$300 = $200 divided by $300 cost is 66%). That's the leverage that mining shares used to offer. But with mining companies facing nearly worldwide geopolitical, environmental and regulatory hurdles, plus an acute shortage of skilled labor and rising costs for parts and equipment, the sex appeal has worn off to some extent. Throw in how metal exchanged traded funds (especially gold) have also absorbed a fair sum of capital that used to go into mining stocks, and you can begin to appreciate how much of a battle the mining and exploration industry has on its hands...despite sky-high metal prices.*

The global mining industry as a whole, which provides about two-thirds of the annual gold supply, should not expect its structural problems to go away anytime soon. That's why global gold production is flat to down despite what one would assume would have been ratcheted up greatly given the fact that gold prices have basically tripled since the new millennium began in earnest. We can expect M & A activity to continue and for the majors to begin to work their way down the food chain as most of the big players have found a dancing partner.

***Companies Updates** – Please note that with the exception of the last company mentioned, the following companies are clients of Grandich Publications. Please read the disclaimer on page 33 for full disclosure.*

Adriana Resources (ADI-TSX-V $ .94) - Since announcing the acquisition of over 850,000 square meters of shoreline land in Brazil where plans are to develop an iron ore shipping (port) facility near Rio de Janeiro, the Company has been firing on all cylinders. The Company anticipates the port to be operational within the next two years. I suspect numerous independent mining companies within the iron quadrangle of Minas Gerais have or will contact Adriana expressing interest in gaining access to the future port facility. A scoping study is currently being completed by Seabulk Technologies, an independent engineering firm, where it is anticipated that the project can demonstrate robust economics. The Company is also actively looking to acquire iron ore mineral assets in Brazil. In Finland, Adriana expects to receive the results from a scoping study on its Mustavaara Iron, Vanadium and Titanium Project shortly. In Quebec, the Company is currently drilling at its Lac Otelnuk Iron Ore Project where they hope to bring some 600 million tonnes of ore into 43-101 compliant resource status. The Company is also awaiting assay results from the recently completed drill campaign at its MIE Project in Nunavut.

Anooraq Resources (ARQ-TSX-V $2.97, ANO-AMEX $3.05) – Consolidation around the $3 level as the market digests recent developments.

ATW Ventures (ATW-TSX-V $ .63) - On Sept. 28, 2007, ATW signed a memorandum of understanding (MOU) under which ATW will purchase all beneficial rights, title and interest to the Burnakura exploration joint venture (BEJV) and the Burnakura production joint venture (BPJV) which collectively make up the Burnakura gold project owned by Tectonic Resources NL (ASX: TTR) and Extract Resources Limited (ASX: EXT). At this time, ATW is awaiting execution of a definitive acquisition agreement and hopes to provide details to its shareholders shortly.

Blackstone Ventures (BLV-TSX-V $ .94) - Continues to have some very interesting exploration results on more than one front.

Crosshair Explorations (CXX-TSX-V $2.29, CXZ-AMEX $2.35) - More good results since this commentary
http://www.grandich.com/docs/GL_09-10-07_cxx.pdf

Donner Metals (DON-TSX-V $ .50) - In partnership with Xstrata Zinc Canada, Donner is currently exploring for volcanogenic massive sulphide (VMS) deposits in the Matagami Mining Camp of Quebec. Donner and Xstrata are using a

combination of 3D data integration, innovative advanced technologies, new concepts and diamond drilling to explore for new zinc deposits in this prolific mining camp. A 45,000-meter drill program is ongoing year-round at the new Bracemac and McLeod discovery areas. Highlights from recent drilling at Bracemac and McLeod include: 19.75 meters of 22.95% Zinc, 21.40 meters of 12.47% Zinc at Bracemac and 11.42 meters of 8.91% Zinc at McLeod.

Donner also has preparations underway for a geophysical exploration program at its South Voisey Bay Project, located in Labrador, Newfoundland. The South Voisey Bay Project area covers the Pants Lake Gabbro Complex, which hosts the best occurrences of anomalous nickel-copper sulphide mineralization in mafic plutonic rocks in Labrador outside of Voisey's Bay.

Eastmain Resources (ER-TSE $ .67) - With Goldcorp's pending production of the adjacent multi-million-ounce Roberto sedimentary gold deposit, Eastmain's management is bullish on Québec's Opinaca/Eastmain mining district. Already owning 100% of two gold deposits in the district, the Company has aspirations of finding a third discovery at Éléonore South, where it has confirmed the presence of a Roberto-style sedimentary gold setting.

Trenching and channel sampling at Éléonore South, a Joint Venture with Goldcorp Inc. and Azimut Exploration Inc., has outlined gold enrichment in sediments over a 600-metre by 300-meter area. This target area, known as JT, is centered on an 11-meter visible gold zone containing up to 37.8 g/t Au. The zone also contains intervals grading 5.33 g/t Au across 8 meters. Over 250 meter-long channel samples recently collected from the JT Target area are enriched in gold and indicative of a potential underlying sedimentary gold deposit. A comprehensive drill program will follow this extensive trenching campaign.

A 43-hole HQ diamond drill program, set to begin on Eastmain's 100%-owned Eau Claire gold deposit, is expected to generate in excess of 100 gold-ore intercepts, slated for metallurgical testing. The principal objective is to determine if Eau Claire and Goldcorp's Roberto gold deposit are metallurgically compatible. If so, custom milling may be in the cards at Goldcorp's future mill site. Eau Claire, a four-million-tonne gold deposit, (310,000 ounces indicated at 9.5 g/t Au and 680,000 ounces inferred at 7 g/t Au), is located just two kilometers from a road and lies within trucking distance from the future operating mill. The composite surface grade of the Eau Claire deposit is much higher – 23.5 g/t or 0.70 ounce per ton gold – than the stated average composite grade at Roberto and therefore, potentially a good blend for Roberto ore. Eastmain has recently secured the support of Dr. Ted Moses, past Grand Chief of the Cree First Nation, tallyman and trap line owner at Clearwater, for the future development of Eau Claire. Preliminary Cash Flow estimates of the deposit suggest a very positive return based on current gold price.

A comprehensive drill program is also in the planning stages for the Eastmain gold mine, where $40 million in previous expenditures has outlined a 255,750-ounce measured and indicated gold resource within less than one million tons of rock. This high-grade copper-gold deposit has over one-kilometer of underground workings, a 20-year mining lease, tailings pond and surface facilities, which Eastmain acquired for 10 cents on the dollar. The best place to explore for ore is underneath an existing deposit. Previous bonanza-grade drill intercepts include 66.14 g/t Au across 9.9 meters. This deposit is an analogue to the multi-million-ounce Detour Lake gold deposit and was discovered exactly the same way – by drilling a geophysical anomaly. This project is consistent with Eastmain's plans for future growth by increasing its current gold resources through continued exploration and new discovery.

With the endorsement of Goldcorp, a 9.5 % stakeholder in the Company, Eastmain is well-financed and eager to start drilling-testing its three main Opinaca/ Eastmain district projects over the coming seasons.
http://www.wallstreetreporter.com/EastMainResources.php

Farallon Resources (FAN-TSE $ .77) - is maintaining its parallel track approach to develop its G-9 Mining project targeting July 2008. The Company is currently working on the underground decline for accessing the G-9 deposit while concurrently laying all the ground work for the Mill site and plant.

They recently introduced a shareholder rights plan to protect and maximize shareholder value in response to the M&A activity going on in the industry. As they near their goal of going into production, Farallon is in a unique situation to generate significant cash flow from a high-grade small footprint mine with minimal capital expenditure. With this expectation in mind, they have employed a Manager in charge of marketing and logistics.

Farallon's exploration program is ongoing and looking forward to similar success in the upcoming year.

Formation Capital (FCO-TSE $ .62) - After rebounding to the sixty cent range from touching a low of 40 cents in response to this summer's credit crisis, shareholders are eager for some news on the status of the Final Environmental Impact Statement (EIS) and Record of Decision (ROD) on the company's 100%-owned Idaho Cobalt Project. A quick reference to the USDA's Forest Service Schedule of Proposed Action website, updated October 2007, still estimates the Final EIS for the cobalt project to be in the Federal Register sometime this month (October 2007). Whether or not the Forest Service can stick to this date remains to be seen, but it does seem to indicate they do not foresee any substantial delays.

An ROD, considered the key mine permit, is typically issued in conjunction with the completion of the Final EIS.

At the height of the summer's market crisis, the Company announced the results of a positive, NI 43-101 compliant, bankable feasibility study, the timing of which could not have been worse. Although the initial market response was positive, like all liquid resource stocks, its share price dropped steadily in response to continued institutional selling pressure over the course of the following weeks. This, despite strong cobalt prices that have risen to almost US $30 /lb with predictions from such firms as Credit Suisse that cobalt will break through US $40 /lb before the year is out. The shares have since rebounded back to the 56- to 60-cent level after the initial selling pressure declined.

While the markets were witnessing the worst downturn seen in years, an independent research report on the project was completed with a less than stellar share evaluation and a hold recommendation. The report utilized a conservative discount rate of 12% and a cobalt price of US $17.50. Not surprisingly, the report did not give credit for the company's other assets, including the refinery that according to the Company would cost on the order of $70 million to replace. According to Formation, a more realistic discount rate for a project in North America would be on the order of 5% to 8% and that utilizing an 8% discount rate and $17.50 /lb cobalt, the research report's fair valuation would be $1.15. Utilizing current cobalt prices with an 8% discount rate could result in a share valuation over $2.00 per share.

In a strong cobalt market, with a positive feasibility study in one hand and a mine permit in the other, Formation is expected to be in a favorable position this fall to secure its mine financing to move the project toward production. The company's news release in early September, announcing down payments had been made on long lead time mill equipment to secure delivery for next summer, clearly indicates management's confidence in obtaining all the necessary mine permits and that they could commence mine construction as early as Q1 of 2008.

Geologix Explorations (GIX-TSX-V $2.10) - Firing on all cylinders and news should continue to flow through year's end on its flagship project, San Augustin in Mexico.

GLR Resources (GRS-TSE $ .50) and Uranium City Resources (UCR-TSX-V $ .29) - http://www.kereport.com/videos/UraniumCity/videos/I-BobKasner.wmv
http://www.kereport.com/videos/UraniumCity/videos/I-SergeNadeau.wmv
http://www.kereport.com/videos/UraniumCity/videos/I-JohnOrr.wmv
http://www.kereport.com/videos/UraniumCity/videos/I-Bijou.wmv
http://www.kereport.com/videos/UraniumCity/videos/ReturntoUraniumCity.wmv

Hawthorne Gold Corp (TSX-V HGC $1.75) - Diamond drilling continues at the Frasergold Project where a total of 5,000 meters of diamond drilling is planned for the Fall 2007 drill season. The first ten holes are planned to be drilled into the main zone where the Company plans to bring a historic gold resource of 363,000 ounces into a 43-101 compliant status. Airborne geophysics were also recently completed at Frasergold. The resulting interpretations from this program will guide future drilling and resource expansion activities. The Company's goal is to identify sufficient resources to outline a large open pittable gold deposit and bring it to feasibility study within the next two to three years and, if positive, to bring the project through to production. The current drilling activity at Frasergold should prove to be a very interesting time for the Company— especially if they can demonstrate that the historic deposit is much larger than earlier reported.

Knight Resources (KNP-TSX-V $ .26) - is currently exploring the West Raglan Project in northern Quebec. The West Raglan Project is a joint venture between Anglo American Exploration (Canada) Ltd. (51%) and Knight (49%). The West Raglan Project, Quebec covers over 720 square kilometers and is on the same geological trend as the Raglan Mine, one of the richest nickel mines in Canada. The company is looking for a series of lenses and pods like those at the neighboring mine. Initial results from the 2007 exploration program at West Raglan were promising, including an intersection of 28 meters, grading 1.06% nickel, and 5.90 meters of 2.98% nickel. The stock was hammered recently on less than stellar results but numerous drill hole results are still due out and I believe the results this year clearly suggest there will be an active 2008 drill season.

Longview Capital (LV-TSX-V $ .71) - just graduated to the senior TSX Exchange, only a few months after being named the top Diversified Company in the TSX-V Top Fifty ranking. Though markets have been highly volatile, Longview's model continues to work, with a number of its private resource companies nearly ready to pursue public listings. Waratah Coal (TSXV: WCI) is the latest example of a private company that was taken public and is now successful – announcing 1.7 billion tonnes of export-quality inferred coal resources in Australia. With coal demand (and prices) growing at a strong rate, Waratah's timing appears good. Longview is building on this bull market in energy by creating an oil and gas division.

Lund Gold (LGD-TSX-V $ .22) - The company believes the Tapajos district of north-central Brazil is one of the best-kept secrets in gold exploration, with Lund Gold Ltd. at the forefront in the search for world-class deposits in this emerging district. The Company recently completed a 1,000-meter drilling program to test the first of six targets defined to date at its Carneirinho Property. Carneirinho hosts at least two parallel structures related to the Tapajos Regional Structural Zone, a 200-km-long shear zone accounting for most of the 7- to 10-million ounces of gold produced by garimpeiros in the Tapajos region since the first discoveries were made in the 1980s.

Lund can acquire a 100% interest in the Carneirinho Property, which has a history of garimpeiro production (about 117,000 ounces) and covers extensive former and current workings. The junior's first-phase exploration program in 2006 identified six distinct gold-in-soil geochemical anomalies, while the 2007 program focused on better defining these targets in preparation for drilling evaluation. The Company is now awaiting analytical results from its recently-completed drilling program, which tested a 600-meter by 175-meter target north of extensive garimpeiro workings. Lund Gold may be a new name in gold exploration in Brazil, but its management team led by President Chet Idziszek has an established track record of exploration.

Oriental Minerals (TSX-V OTL $1.01) - continues to focus its attention on its substantial Sangdong tungsten/moly project, which was one of the world's largest producers of tungsten in the past. Six core drill rigs and one RC rig are at work, with another core rig en-route to the site, with 30 holes completed to date. The company has already begun to receive very good results and awaits numerous other drill holes. I'm told senior management and board members are on the road reassuring investors one-on-one that this considerable work program is on-track to deliver results and only a little behind schedule. Over $9 million was raised for OTL in August.

Oromin Exploration (OLE-TSX-V $2.90) - World-class gold discoveries do not go unnoticed, which means it's a matter of time before the mining and investment communities recognize the significance of exploration and drilling results being generated by Oromin Explorations Ltd. from the Sabodala Exploration Concession in eastern Senegal. The Vancouver-based junior has discovered so many gold deposits and exploration targets at Sabodala that a map is necessary to keep track. The results generated to date have transformed the Sabodala Concession from an early-stage prospect into an emerging gold district with potential to rival the prolific gold camps of neighboring Mali.

Oromin is conducting an aggressive drilling program focused on resource delineation of numerous gold zones and deposits, with 450 holes totaling 75,000 meters planned for 2007. Recent results include some of the deepest and thickest intersections to date, notably 29 meters of 5.26 g/t gold (from 283 meters) at Golouma West, and 14 meters of 7.06 g/t gold (from 157 meters) at Golouma South. Step-out drilling continues to expand the Golouma South and Golouma West deposits that will be the focus of resource estimates early in 2008. Regional exploration continues to generate multiple new discoveries scheduled for frilling shortly. The Company is scheduled to complete a pre-feasibility study to begin late in 2008. My hat always goes off to this management team for spending virtually all its efforts on drilling for ore and not investors. They have engaged http://www.agoracom.com, which should greatly help them enhance their profile worldwide.

Patrician Diamonds (PXC-TSX-V $ .09) and Phoenix Matachewan Mines (PMM-TSX-V $ .08) - Awaiting updates from both Robin Dow led companies.

Rockwell Diamonds (RDI-TSX-V $ .67) - Good things continue to happen on the corporate front while shareholder value slowly rises. Stay tuned.

Soho Resources (SOH-TSX-V $ .30) - The Company is poised to define its first NI 43-101-compliant resource estimate at the Tahuehueto Project in Durango State, Mexico near the end of 2007. Although well along in this process, delays associated with commencing the helicopter-supported drill program have slowed the pace of data collection within the critical area of structural intersection of the El Creston and El Perdido Structures.

Recent excellent drilling results issued by Soho Resources Corp. continue to demonstrate favorable grades and widths at the Tahuehueto Project.

Click here to read about the new Catorce Zone and expansion of El Creston.
http://www.sohoresources.ca/news/2007/sept27.asp

Soho Resources recently completed the 18,000-meter drilling program focused on resource definition within five priority zones at Tahuehueto. The Company then launched both a 5,000-meter surface drill program with an independent contractor and a 3,000-meter, helicopter-supported drilling program using its own recently purchased fly-capable light drill rig.

Ten helicopter-supported drill sites have been established in order to complete this 3,000-meter program. Once results are in hand, Soho will have the data necessary to calculate its first resource estimate for Tahuehueto.

Currently the company is drilling its first helicopter-supported drill, DDH07-127, on the El Creston Zone within the undrilled area north of the high grade area identified by DDH07 111 & 113, as referred to above. The surface drill rig is drilling hole DDH07-132 which is testing the southward extension of this same area.

Soho has expanded its communication programs with shareholders and the investment community. An in-house Investor Relations Department has been established, headed by Manager Glen Sandwell with Associate Stephen Casey. This team, along with senior management representatives, will attend numerous investment- and industry-related trade shows throughout the remainder of 2007 and 2008.

To enhance its newly established Investor Relations Department's efforts, the Company has also retained the Toronto-based team of Genoa Management Limited and John Walter Communications Inc., to provide senior management

of the Company with ongoing capital markets counsel. Established in 1999, Genoa Management provides Canadian-listed companies with independent capital markets counsel as well as financial communications management and targeted investor outreach support.

Solex Resources (SOX-TSX-V $ .48) - Awaiting an update from company.

Target Exploration (TEM-TSX-V $ .78) - Since my initial coverage http://www.grandich.com/docs/GL_08-13-07_tem.pdf, a lot of ground work has been laid on the Sinbad Project in Utah. They have completed a radon gas survey that highlighted numerous radon anomalies. Radon is a non-reactive gas that is a product of uranium, making it a great detector of uranium!

Target has recently announced a 21 hole, 6000-foot drill program on the project, which will test not only the radon anomalies, but also the extension onto Target's ground of uranium mineralization found at the adjoining Sinbad Uranium Mine. The Sinbad Uranium Mine is reported to contain historic resources remaining in five zones in the range of 300,000 pounds of U_3O_8 including intercepts of 7 feet grading 0.267% U_3O_8.

Target is still compiling the extensive database on its "flagship" projects in the Shirley Basin, Wyoming. The Bootheel Property has almost 5 million pounds of U_3O_8 reported in a historic resource. Target is still on track to drill this property in the spring to confirm these resources and to expand the known uranium zones.

Given Target's strategic portfolio of projects, its experienced management and its very low market capitalization, I think this company has a chance to substantially increase shareholder value over the next year if it is able to come up with favorable drill results. Target is one of my personal favorites, not only for the reputation and experience of its management, but also for the excellent share structure with roughly 11.6 million shares outstanding and over $4 million in the bank!

Timmins Gold (TMM-TSX-V $ .72) - My apologies for still not having a formal first write-up out but the developments at the company continue to come fast and furiously. Management is also somehow managing to work 48 hours a day but we hope to have a full commentary ASAP. In the meantime, know we've broken out of the starting gate in fine fashion (and given the fact that many deals left us at the starting gate, this is a good thing).

And finally...

Northern Dynasty Minerals (NDM-TSX-V $12.30, NAK-AMEX $12.54) – I went from hero to goat in a month (and that was just in my own household) but appear to be at least getting the goat tag removed as the company's share price is back in an uptrend.

The company had a market cap of US$1.2 Billion and did a deal on the property for US$1.425 billion for a 50% interest. Anglo does not have a veto, does not have "control", does not get management fees, and has to spend every last red cent to vest in the 50%. If they spend US$1.0 billion and walk, they will have earned nothing. It is a tough, tough deal. Even the pundits had said the asset is likely worth US$3 billion (you have to remember that the commercial production is out there post 2014, and on an NPV basis NDM gets hammered in their valuations.) This deal, however, does demonstrate that the asset is worth US$3.0 billion because Anglo agreed to pay US$1.425 for 50%, and that price will go up by US$75 million to US$1.5 billion if the Feasibility Study and permits are not in hand by 2011. Could Anglo have paid the money today? Yes, they could have, but what would NDM have done with it? The burn rate on the project is US$125 million to the Pre-feasibility Study and that will take to the end of 2008, then there is the Feasibility Study and the permitting over the ensuing 3 years for another total US$325 million, and only then does NDM really need the bulk of the money to build the mine.

And best of all, NDM is now essentially funded to production and owns 50% of the Pebble Project, a very appealing takeover target for a lot more companies. Prior to the Anglo deal, the only companies in the market for such a large deposit were the big boys (BHP, RTZ and Anglo). Now, because NDM is funded, all the big gold companies and the larger copper companies, plus all the Asian smelter groups, can seriously look at the remaining 50% and the only way to it is through NDM. It would come as no surprise to me to wake up one day to learn a major other than RTZ has acquired a stake in NDM, made a bid for NDM or RTZ made a bid/deal for the remaining 50%. I continue to believe NDM is one of the most compelling metals stories worldwide.
http://www.homertribune.com/article.php?aid=1064

For comment on NDM, click on this link and fast-forward to the 3:09 minute mark http://www.bloomberg.com/avp/avp.asxx?clip=mms://media2.bloomberg.com/cache/vPTZs0yqyC7k.asf

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Our engagement has ended with **Continental Minerals (KMK-TSX-V).** It's a superb project with the best management team, so I would continue to expect good things for the foreseeable future.
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Special Note -

It seems a day doesn't go by when we don't hear of a tragedy regarding our youth. Many cry for answers and while many meaningful things are done for our future generation, I believe only one hope is the answer http://www.godtube.com/view_video.php?viewkey=ee73e63418003b47d7d5

PLEASE DON'T WATCH THIS IF YOU'RE TROUBLED BY RELIGIOUS VIEWS!

And definitely finally, here's the recruitment video for the "Don't Worry, Be Happy" crowd on Wall Street http://www.youtube.com/watch?v=ZKK61P76WX4

Upcoming Speaking Engagements

October 21 - 22, 2007
Toronto Resource Investment Conference
http://www.goldshow.ca

October 22, 2007
Market Call Tonight
7:00 pm Eastern
http://www.bnn.ca

November 10, 2007
Michael Campbell's Vancouver Conference
http://www.moneytalks.net

November 16, 2007
BNN's "Commodities Corner"
11:30AM EST
http://www.bnn.ca

January 20 - 21, 2008
Vancouver Resource Investment Conference
http://www.goldshow.ca

February 9 - 10, 2008
Phoenix Resource Investment Conference
http://www.goldshow.ca

March 3, 2008
BNN's "Market Call"
12:30 pm EST
http://www.bnn.ca

Grandich Publications, LLC.
P.O. Box 243 • Perrineville, NJ 08535
www.Grandich.com phone • 732-642-3992
email • Peter@Grandich.com

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	ADI	100,000 @ $ .70	$2000
	ARQ	** 100,000 @ $ .95	$1000
	ATW	100,000 @ $ .82	$1500
	BLV	**100,000 @ $ .33	$1500
++	CXX	* 200,000 @ $ .25	$2000
		* 100,000 @ $. 45	
		100,000 @ $ 1.31	
		100,000 @ $2.03	
	DON	100,000 @ $ .35	$2000
	ER	100,000 @ $ .52	$1500
		100,000 @ $ .65	
	FAN	50,000 @ $ .80	$1000
		50,000 @ $ .63	
++	FCO	50,000 @ $ .80	$1500
		** 100,000 @ $ .54	
		75,000 @ $ .41	
		100,000 @ $ .40	
++	GIX	* 100,000 @ $ .54	$2000
		* 100,000 @ $ .50	
		75,000 @ $ .41	
		100,000 @ $ .40	
	GRS	50,000 @ $ .40	$2000
		100,000 @ $ .45	
	HGC	100,000 @ $1.60	$2000

	Company	Options in Cdn $	Monthly Fee in US $
	KNP	100,000 @ $ .21	$2000
		100,000 @ $ .165	
		50,000 @ $ .32	
++	LGD	100,000 @ $ .33	$1500
	LV	100,000 @ $1.18	$1500
	OLE	100,000 @ $1.77	$1500
		100,000 @ $2.60	
	OTL	100,000 @ $1.38	$1500
	PMM	250,000 @ $ .10	$2000
	PXC	100,000 @ $ .11	$2000
++	RDI	50,000 @ $ .50	$1000
	SOH	150,000 @ $ .20	$1500
		100,000 @ $ .50	
	SOX	** 100,000 @ $. 40	$1500
		100,000 @ $ .46	
++	TEM	100,000 @ $1.00	$2000
	TMM	100,000 @ $ .50	$2000
	UCR	100,000 @ $ .50	$2000
		50,000 @ $ .36	

* Exercised
** Exercised and sold
*** Options Expired

++ Peter Grandich and/or members of his immediate family own shares in the company as of the date of this newsletter.

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